UNITED
NATIONS

TD

United Nations
Conference
on Trade and
Development

Distr.
GENERAL

TD/B/CN.3/13
20 April 1995

ENGLISH
Original: ENGLISH/FRENCH

TRADE AND DEVELOPMENT BOARD
Standing Committee on Economic Cooperation
among Developing Countries
Third session
Geneva, 19 June 1995
Item 3 of the provisional agenda

ENLARGING AND DEEPENING MONETARY, FINANCIAL AND INVESTMENT COOPERATION AMONG DEVELOPING COUNTRIES AND PROMOTING COOPERATION OF THE ENTERPRISE SECTORS OF DEVELOPING COUNTRIES

Report by the UNCTAD secretariat

GE.95-51389 (E)

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Abbreviations

ACU	Asian Clearing Union
AFREXIMBANK	African Export-Import Bank
AME	Andean Multilateral Enterprise
AMU	Asian Monetary Unit
ASEA	African Stock Exchanges Association
ASEAN	Association of South-East Asian Nations
ATFP	Arab Trade Financing Programme
BEIA	Ibero-American Electronic Stock Exchange
BLADEX	Latin American Export Bank
BOLCEN	Asociación de Bolsas de Comercio de Centroamérica
CACH	Central American Clearing House
CAF	Andean Development Corporation
CAFCH	Central African Clearing House
CARICOM	Caribbean Community
CAEU	Council of the Arab Economic Unity
CAUA	Central African Unit of Account
CHCAS	Clearing House of the Economic Community of Central African States
CMCF	CARICOM Multilateral Clearing Facility
CPS	Central American Payments System
COSRA	Council of Stock Market Regulatory Authorities of the Americas
ECDC	economic cooperation among developing countries
ECIP	European Community Investment Partners Facility
ECOWAS	Economic Community of West African States
EMU	European Monetary Union
FDI	foreign direct investment
FIABV	Ibero-American Stock Exchanges Federation
FIBV	International Federation of Stock Exchanges
FICE	fonds d'investissement des capitaux étrangers
GCC	Cooperation Council of the Arab States of the Gulf
GNP	gross national product
IAIGC	Inter-Arab Investment Guarantee Corporation
IASC	International Accounting Standards Committee
IDB	Inter-American Development Bank
ICIIEC	Islamic Corporation for the Insurance of Investment and Export Credits
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IsDB	Islamic Development Bank
LAIA	Latin American Integration Association
LARF	Latin American Reserve Fund
L/C	letter of credit
MECOFIN	Mechanism for Confirmation and Financing of Letters of Credit and Imports
MERCOSUR	Southern Cone Common Market
NIC	newly industrializing country
OAPEC	Organization of Arab Petroleum Exporting Countries
ODA	official development assistance
OPEC	Organization of Petroleum Exporting Countries
PAPECA	Programa de Apoyo a la Producción Exportable de Centroamérica
PTA	Preferential Trade Area for Eastern and Southern African States

R & D	research and development
SADC	Southern African Development Community
SAFICO	Andean Trade Financing System
SDR	Special Drawing Rights
UAPTA	Unit of Account of the PTA
WACH	West African Clearing House
WAUA	West African Unit of Account
WABA	West African Bankers Association
ZEP-RE	PTA Reinsurance Company

INTRODUCTION

1. At its first session, held in January 1993, the Standing Committee elaborated its work programme for future sessions, devoting its second session to trade and integration issues and the third to monetary, financial and enterprises cooperation (TD/B/39(2)16-TD/B/CN.3/5, annex II). At its second session, held in November 1994, the Committee expressed its intention to consider the issues of monetary and financial cooperation as well as enterprise cooperation at its third session. The Committee also decided to include on its agenda a new item 5 dealing with the Standing Committee's work programme, with special emphasis on the preparations for UNCTAD IX.

2. This note considers the policy issues under item 3 of the provisional agenda: monetary, financial and investment cooperation, as well as cooperation among enterprises of developing countries. No proper consideration of these issues is possible without placing them in the perspective of the dominant current trends in the world economy, those of globalization and liberalization. The fact that developing countries, despite the disappointing results of the 1980s, have been revitalizing and strengthening ECDC in all its aspects and at all its levels, reflects an objective judgement on their part that they view the ECDC process as compatible with globalization and liberalization. Indeed, ECDC has come to be seen as the means through which developing countries, especially small economies, can prepare themselves to participate effectively and competitively in the global economy. For ECDC to assume this instrumentality function, it has to be "**open and flexible ECDC**". This concept, its policy contents and the relationship between ECDC and the global economy are developed in document TD/B/CN.3/15, particularly, chapter III.

3. In chapter I of this paper, the general topic of deepening monetary, financial and investment cooperation is considered with a view to proposing policy actions and conclusions which might be of assistance to the Standing Committee. Under this rubric the clearing and payments arrangements of developing countries are reviewed from the standpoint of their recent performance in relation to the issues and problems they have experienced. Of particular note is their relevance and use in a world of convertible currencies. Next, monetary harmonization and integration among developing countries is reviewed with a view to outlining the basic issues for future consideration. The following topic is cooperation in trade finance among developing countries. After outlining the problem, recent developments are reviewed, and thereafter an action programme to promote trade-finance cooperation is outlined. This programme aims at following the recommendation of the Committee at its second session to draw the regional development banks into a cooperative endeavour with UNCTAD in this area. Elements of a technical assistance programme for existing facilities are also presented. The note then considers regional capital market cooperation, in the context of capital flows among developing countries. It outlines the problems and policy issues to be considered and proposes specific measures to deepen this cooperation, including building up basic institutional links among banks.

4. In chapter II, the general topic of promoting enterprise cooperation is taken up. After reviewing the recent changes in the enabling environment, the note discusses the issue of promoting multinational enterprises through

various means such as the establishment of free customs zones, participating in buying privatized and public enterprises and expanding enterprises which have accrued competitive advantages. After that an attempt is made to outline measures for encouraging joint investments through legislative and regulatory reforms, promotion of joint enterprises in various forms such as accords on non-equity joint ventures, associations of enterprises to provide information and standardized modalities of investment. The chapter takes up the issue of foreign direct investment among developing countries. It reviews the most recent flows and patterns and discusses the regulatory reforms therein. Within this general topic, particular attention is paid to technological cooperation in R & D and in adaptation of technology for its effective use and synergetic development in relation to investment in human resources among enterprises.

5. At the end of each subsection and, when appropriate, in the midst of the text, the major conclusions, issues and policy proposals are presented in bold-face letters to further assist the Committee in its consideration of this item. A special effort was made to provide a menu of policy proposals and issues in each part. Some of these proposals concern UNCTAD and some others may concern other organizations. The Committee would naturally select only a few of these issues and suggestions in prioritized areas in the light of its own work programme over time and the resources available to UNCTAD.

Chapter I

ENLARGING AND DEEPENING MONETARY, FINANCIAL AND INVESTMENT COOPERATION AMONG DEVELOPING COUNTRIES

A. Clearing and payments arrangements 1/

(i) Issues and recent developments

6. Since 1990, the performance of multilateral clearing and payments arrangements among developing countries has been rather satisfactory. Table 1 of the annex summarizes their status. The data permit the conclusion that by the end of the 1980s, the multilateral clearing and payments arrangements of developing countries had started to recover from the crisis originating in the debt problems and the consequent financial squeeze of the 1980s. This is shown by the increase in the volume of cleared transactions and the growth of underlying trade. In most of the regions with clearing and payments arrangements, intra-trade has been on the rise since 1986. However, the bulk of both intra-grouping trade and total transactions channelled is concentrated in two regions (in LAIA and ACU).

7. The share of net settlement in foreign exchange was low in ACU, LAIA and PTA. As for WACH, the ratio of net settlement in foreign exchange was reduced because of the decline in transactions channelled. In contrast, in CHCAS, almost all transactions were settled in hard currency. While a low ratio of settlement in foreign exchange indicates foreign-exchange savings, in any particular year this ratio only signifies the degree to which intra-trade is unbalanced. And it is only if imbalances persist over a longer period of time, typically in persistent debtor or creditor positions, that they become problematic.

8. In this connection, some of the clearing houses, namely ACU, CHCAS and the PTA facility, have operated without arrears since their creation. The amount of arrears has been significantly reduced in LAIA. In CACH, the renewal of the clearing mechanism in 1990 brought about a solution to the intra-grouping debt problem. The CARICOM Clearing Facility suspended activities in 1983 as a result of the accumulation of arrears. WACH has also experienced accumulation of outstanding debts among member countries; as a result, creditor countries have not authorized further exports to be channelled through the mechanism.

9. The end of the 1980s and the beginning of the 1990s has been an innovative period. In ACU, the most important policy development has been the successful implementation of the currency Swap Arrangement among participants which started operations in September-October 1989. In LAIA, the Reciprocal Payments and Credit Agreement was amended in 1991 with a two-tier Automatic Payments Programme for the transitory financing of balances of multilateral compensation. One element of the amended agreement offers central banks automatic access to the credit or debit positions of other central banks; the other one is a short-term credit facility which extends the settlement period for central banks with difficult liquidity positions. The most important modification of the LAIA system was the authorization to channel payments originating in triangular trade in 1992. PTA is unique among the Clearing

Hcuses on account of the successful introduction of UAPTA traveller cheques in August 1988. Except for Angola and Mozambique, all PTA members have joined this scheme. Since their introduction, even though in fluctuating amounts, these cheques have been in continuous use.

10. The common threads of the innovations are the inclusion of non-trade transactions, the reduction of exclusions from the system and the linking of the payments systems with other elements of monetary cooperation. In more than one arrangement, members are considering transforming their clearing systems into payments unions and, later on, monetary cooperation zones. This raises issues which are discussed in section B below.

(ii) Compatibility between convertibility and payments arrangements

11. There has in the past few years been a generalized move towards convertibility in many economies which are members of clearing and payments arrangements. The question then arises as to the usefulness of these arrangements under conditions of convertibility. Before answering this question, a few remarks about convertibility are in order. Convertibility is not an end in itself but a means to attain certain goals such as, for example, external discipline on economic policies or the transmission of international price signals to internal producers and consumers. Convertibility may be "de jure" (declared) or "de facto", it can be "global" or "regional", "internal" or "external"; in other words, it is a relative concept. From the viewpoint of economic cooperation among developing countries, the most important distinction is to be made between "global" convertibility, which refers to the possibility of the conversion of the national currency into all currencies of the world, and "regional" (limited) convertibility, which applies when the currency in question is accepted only within a determined region.

12. As formulated in a report prepared for UNCTAD, 2/ limited convertibility represents a set of coordinated national exchange arrangements that lead to faster liberalization of transactions intraregionally than with the outside world. In this context, limited convertibility is a useful transitory arrangement in the service of countries which wish to attain global convertibility in the long run but cannot do so in the short run. Limited convertibility brings about such positive elements as learning from consultation with partners, the symmetry of obligations and intensified degree of monetary cooperation. Since limited convertibility is usually accompanied by a formal system of clearing and settlement, within the clearing house "potential convertibility" is invoked in terms of eventual balances.

13. The key to a successful experience in limited convertibility hinges on various factors: in particular, all member countries must settle their balances in hard currencies, or accept ceilings on automatic credits and gradually reduce credit lines. Another contributory factor is the introduction of a currency swap scheme which can be effective in reducing the problem of arrears and/or extra credit lines. These are now either implemented or under consideration in the various arrangements. A more ambitious approach is to pool reserves via a reserve fund. However, the success of reserve funds depends on the size of the fund, the number of countries involved, and their degree of success in macroeconomic stabilization.

14. The practice of some countries, such as Argentina and India, which have attained global convertibility but still participate in limited convertibility arrangements indicates that convertibility is quite compatible with participation in clearing and payments arrangements. The same behaviour can be observed in other members of ACU and LAIA. It is useful, therefore, to look at the reasons that might explain this behaviour.

15. Payments and clearing arrangements still afford members at least five advantages: (1) since payments are deferred till the end of the settlement period and even then only the multilateral balances are paid, clearing and payments arrangements may remain economical even for countries which have attained global convertibility; (2) if coupled with credit lines and swap arrangements, these arrangements serve an important credit access function; (3) since monetary harmonization is essential to limited convertibility, the arrangements serve an important monetary coordination role and pave the way towards global full convertibility; (4) while in themselves clearing and payments arrangements are not the only forums of monetary cooperation, they have in the past served the purposes of enhancing monetary cooperation among their participants and pushing towards higher degrees of coordination; (5) finally, in regions where important trade partners or countries with an important regional weight or role still have inconvertible currencies or face balance-of-payments difficulties, the arrangements remain an important regional tool for countries with convertible currencies to cooperate with these countries and, naturally, they continue to serve their initial goals for the former countries.

(iii) Interregional problem of links among payments and clearing arrangements and of reciprocal credit lines

16. In recent years, officials of developing countries have expressed interest in linking clearing and payments arrangements across regions. Such links may have three basic modalities: interregional bilateral arrangements; linkages involving individual countries from one region and a multilateral scheme on the other; and linkages between payments and clearing arrangements. From a technical point of view, all three alternatives are feasible. It should be noted, however, that the option of linkages between individual countries and a multilateral scheme might prove to be more difficult to accept for certain regions than the other two alternatives.

17. In the case of linkages between payments and clearing arrangements, some degree of harmonization of rules may be desirable. A linkage does not mean mandatory participation of all member States of both arrangements. Appropriate additional mechanisms such as interim finance arrangements, credit lines, swap arrangements, etc., could further improve interregional cooperation.

18. **UNCTAD has in the past supported these arrangements by back-stopping technical assistance projects, sending advisory missions and undertaking specific studies on issues of interest to them. The need for UNCTAD's help continues to be in evidence. The Committee might wish to express its support for continued technical support by UNCTAD, as well as funding support by organizations such as UNDP, for existing arrangements and for their umbrella, the Multilateral Coordination Committee, for which the UNCTAD secretariat serves as the Technical Secretariat.**

B. Coordination and harmonization of monetary policies

19. Monetary coordination and harmonization is a condition for both successful financial cooperation and progress in trade integration. The advantages for investors and traders of a stable zone of fixed rates as provided in the EMU up to 1992 are undeniable. If trade and finance are conducted with a single currency, as contemplated by some members of the European Union, the benefits are even larger, in that currency switching and crises are obviated altogether. But both the mild degree of monetary union characteristic of exchange rate zones and the strong one of one single currency require a host of conditions to be viable. At the very least, there should be convergence in such critical macro indicators as inflation rates, the ratio of deficit to GNP accepted by the fiscal authorities and the range of interest rates prevailing. In full monetary unions, coupled as they usually are to free movement of resources, the structural characteristics of the economies such as the percentage of public debt to GDP, the cyclical rate of employment, the levels of interest rates and, in addition, financial regulations, tax regulations, fiscal policies and public debt financing have to be harmonized. Moreover, certain institutional capacities besides a common central bank, such as region-wide banks, funds for balance-of-payments support and solidarity funds for intraregional aid, should be in place. Countries must also accept the consequential incapacity to finance fiscal deficits from the central bank.

20. The developing countries, in all regions, are seeking some degree of monetary integration. The most common proposals call for lesser forms of integration than monetary unions. Hence, the type of monetary cooperation and harmonization called for will, in the near future, be that of consultation on monetary matters, coordination of rules, legislation, operational procedures of banks and financial policies, and policy convergence expressed by certain key variables. Typical of this gradualist approach is the ECOWAS single monetary zone proposal entailing the adoption of medium-term and long-term measures in a coordinated manner. Another example of monetary harmonization concerns MERCOSUR, in which member States were to reach basic convergence in exchange regimes by June 1994. This was mostly achieved with the introduction of the real, a new Brazilian currency.

21. Certain arrangements like ACU and WACH have expressed their interest in transforming their payments schemes into monetary cooperation zones. In this case, their activities may, beside clearing and settlement for trade and finance, cover exchange rate harmonization, cooperation in the design and implementation of fiscal and monetary policies, promotion of intra-grouping capital flows by the harmonization of the regulation of money and capital markets, and, eventually, concertation in the conception and realization of adjustment programmes to ensure their compatibility with the objectives of subregional integration.

22. One of the conclusions to be drawn from these experiences is that monetary coordination and harmonization require an institutional structure for cooperation. Through this structure, central monetary authorities participate in regular consultations and review actions of common interest such as harmonizing exchange-rate interventions and regulations, coordination of debt financing, taking measures to strengthen the ability of member countries to

cope with the implications of regional monetary cooperation and harmonization, agreeing on and sequencing harmonization and implementation, and pursuing common macroeconomic objectives.

23. **The analysis and description of the various experiences of developing countries in monetary cooperation might be an input in an "exchange of experience" initiated by the Committee at some time in the future. The Committee might wish to consider a further study on the issues involved with a view to its future work programme.**

C. Trade-finance cooperation

(i) The problem of trade-financing in South-South trade

24. The dearth of trade-financing facilities is a hallmark of many developing countries. According to an UNCTAD survey published in 1991, only 16 countries had fully fledged and specialized trade-finance institutions. 3/ In 56 countries there was some modicum of institutional capacity, usually lodged at the central banks, which are by their very nature removed from trade finance and have different, and sometimes even conflicting, objectives.

25. The terms and conditions typically offered by developing country institutions to their exporters are disadvantageous, the conditions of lending, in particular the collateral demanded, are onerous, and the percentages of exports financed are meagre. The credit, when extended, is short-term, and when commercial banks are involved, they usually extend such trade finance only to large established customers as part of bank-customer relationships.

26. In most developing countries, the institutional and financial capacity shortage has a particular impact on small and medium-sized exporters and on non-traditional exports (defined as either new exports or those calling for medium-term credit). The UNCTAD survey mentioned above highlighted the severe paucity of pre-shipment credit in foreign exchange. Post-shipment credit, while slightly more abundant, was also scarce.

27. These problems affect South-South trade in particular because developing-country importers are often unknown to their exporters, their credit rating is seldom known to the exporter's banking sector, and the banks which might guarantee and sign their debts are either unknown in the exporter's banking sector or have no correspondent relationship with the importing country's banks. Because of these discontinuities in the banking sector, many exporters and importers have recourse to developed countries' banks to finance such trade, thereby incurring extra costs and tougher conditions than those enjoyed by developed country exporters and exporters to the North. In this context, it should be recalled that when the debt problem exploded, the country risk of the debtors was immediately superimposed on the credit risk of developing country exporters and importers, with the result that export credit dried up even for perfectly creditworthy and viable transactions. Finally, it must be noted that international banks do not, as a matter of policy and preference, extend finance on a medium-term basis to exporters; trade credit on longer terms can only be obtained from

international markets as part of bank-customer relationships. This inevitably favours big firms with established credit records and is usually costly and limited in amount.

(ii) Efforts to meet trade-financing needs and upgrade the related facilities

28. Recognizing the need for trade financing, developing countries and regional groupings have undertaken efforts to develop their own trade-financing schemes 4/ in order to foster their own exports, particularly non-traditional exports. This has entailed, in some cases, the establishment of specialized lending institutions, namely export-import banks (EximBanks) that provide medium/long-term loans and may also offer guarantees or insurance if there is not a separate guarantee or insurance agency (e.g. Republic of Korea, India, Thailand and Taiwan Province of China). Most developing countries, however, have established a separated export credit guarantee and insurance agency, responsible for credit enhancement.

29. Financing modes have also undergone some changes. The newly established export credit programmes in developing countries have gone beyond the traditional types of financing by operating a wider range of facilities. These involve short-term export finance, pre-shipment credit, investment loans and export marketing finance. Some export credit programmes use new modalities of export financing such as **overseas investment credits** that enable national companies to invest overseas in equity or to provide loans to such joint ventures. 5/ Another modality is **import credit** for imported machinery and inputs. 6/

30. Some export finance techniques have also been adopted by developing countries to fulfil the requirements for importing capital goods, and examples include factoring and forfeiting. Some developing countries' export credit programmes have enlarged their geographic coverage to other developing regions. 7/ However, despite all these innovations and progress, trade-finance gaps and shortages persist in the vast majority of developing countries.

(iii) Possible areas of technical cooperation in trade financing

31. Developing countries' export credit programmes would benefit from attaining a degree of consensus on standardization of papers, rules of operation, credit rating procedures, insurance and guarantee treatment. In addition, standardized forms for export and import licensing could be used and customs procedures for export-bound imported inputs could be simplified.

32. Proposals for capacity-building in trade financing could include reforms in banking regulations and supervision such as the liberalization of intra-group ownership; the optional use of documentary credits for export transactions (still mandatory in some developing countries); and simpler procedures that address non-bank providers of export finance, such as factors and invoice discounters. In addition, exporters could be allowed to use a portion of foreign exchange earnings to purchase modern financial products (e.g. credit insurance) that may not be available in their own markets. To avoid the problems caused by letters of credit, mechanisms of credit insurance or L/C confirmation can be envisaged.

33. As far as harmonization of insurance and international payments is concerned, members of cooperation groupings may consider ratifying and implementing the Convention on International Factoring, the Convention on International Financial Leasing, the United Nations Convention on International Bills of Exchange and Promissory Notes, and other international agreements.

(iv) Regional financial institutions' and regional development banks' trade-financing activities

34. Parallel to developments in domestic export facilities, regional financial institutions involved in export promotion have also been strengthened, and new institutions and mechanisms of financing have been adopted. Table 2 of the annex presents their main features. The Latin American Reserve Fund (LARF), provides a short-term credit facility (for pre- and post-shipment). In 1992, LAIA launched a proposal to channel trade-related international payments through the LAIA Payments and Clearing System.

35. The Inter-American Development Bank finances exports both directly, through the export financing programme, which accounted for 1.9 per cent of total accumulated loans over 1961-1993, and indirectly, through multisectoral loans. Multisectoral loans are transferred to local second-tier banks. These banks channel the credit to local clients searching for funds for investment, including potential exporters.

36. In the Arab region, the Arab Trade Financing Program (ATFP) which came into operation in 1991 aims at promoting intra-trade and enhancing the competitiveness of Arab exporters by refinancing credits (pre-export, post-export, import and buyer credits) extended by the national agencies to regional exporters and importers. In Africa, the recently established African Export-Import Bank (Afreximbank) is expected to promote intraregional trade and investment. The Bank will extend direct credit to African exporters through pre- and post-shipment export finance and insurance to cover risks in African markets.

(v) The need to enhance regional export guarantees and insurance mechanisms

37. The significance of trade-finance guarantees rests on two considerations. First, it enables creditors to offload their paper to other financial institutions in the domestic market, thereby increasing the funds available for trade-finance institutions. Second, it endows the guaranteed trade-finance paper with negotiability. In turn, "negotiable instruments" can be marketed in international financial markets such as the forfeiting market, thereby tapping external financial resources. Since guarantees presuppose the existence of trade-finance instruments and institutions, as well as a rating system for the credit standing of signatories, the institutional deficiency of developing countries in this respect is more acute than in trade finance. There are very few guarantee schemes in developing countries and less than a handful of regional/multilateral ones active in South-South trade credit.

38. The Inter-Arab Investment Guarantee Corporation (IAIGC) agreed to authorize ATFP (referred to above) to benefit from the guarantees issued for intra-Arab trade credits. The final aim is to establish a network of export

credit guarantee agencies in Arab States supported by IAIGC and the Islamic Development Bank (IsDB). IsDB recently established the Islamic Corporation for the Insurance of Investment and Export Credit (ICIIEC) that will offer investment and export credit insurance to Islamic countries. In the PTA region, the PTA Reinsurance company (ZEP - RE) was established in 1990 with the purpose of handling insurance business related to international trade. The company has carried out operations both within and outside the PTA region.

39. Views differ as to whether this function ought to be performed by the same institutions extending trade finance or by separate specialized institutions. It would be preferable, however, to separate the two institutions for several reasons. First, a finance institution will not have credibility if it does not charge the guaranteed paper at 100 per cent against its capital. Second, in most developing countries, guarantee institutions have to do the rating themselves, and their credibility depends on their independence. Finally, guarantees are a specialized business distinct from trade finance.

(vi) Prospective UNCTAD cooperation with regional financial institutions and regional development banks in promoting trade financing

40. Given the important role of regional financial institutions in support of trade financing, a further step is to strengthen cooperation among trade financing institutions. This cooperation may include two types of activities: the co-financing of export credit operations and cooperation aiming at fostering capacity-building regarding trade-financing institutions. The latter could be a joint task of regional development banks and UNCTAD.

41. UNCTAD's involvement in the analysis of trade-financing schemes has included a series of studies on trade-financing facilities prepared in 1991, that concluded on the need for an interregional trade-finance facility. 8/ UNCTAD is currently preparing a report, based on questionnaires sent in late 1994 to developing countries and regional institutions and development banks. The report surveys the current status of trade-finance in developing countries at all levels and provides flexible modules for a prototype model of trade finance to be used by interested developing countries and their integration groupings, thus paving the way for a technical assistance project on trade-finance advisory services.

42. **One potential use of UNCTAD's expertise in this area is to look into ways of multilateralizing the bilateral trade-financing agreements concluded between developing countries. The LAIA scheme of multilateralization serves as a possible model that can be generalized through appropriate negotiations.**

43. **Given its expertise, UNCTAD could play a catalytic role in bringing together regional development banks to foster interregional trade. Such cooperation could involve any of the following activities which the Committee might wish to consider endorsing:**

(a) Joint technical cooperation with regional financial institutions and the International Trade Centre (ITC) to strengthen capacity-building, exchange of experiences and training. Activities could be financed by

both UNDP and regional development banks. UNCTAD's recent research on trade-financing mechanisms in developing countries and regions provides ready material for this activity;

(b) In strengthening capacity-building for the design of export-financing institutions, it may be useful to prepare seminars intended for official and private institutions involved in trade financing. The topics could include: new instruments and financing modalities such as factorization, forfeitization and secondary markets for trade-financing instruments;

(c) In the area of trade-finance insurance and guarantees, certain initiatives such as the creation of joint guarantee networks by national and/or regional institutions, standardization of operational procedures, drafting of common legal documents to be used by all participants, and development of common standards of evaluation of risk, and a system of dissemination of such information would be of great value.

D. Issues in capital market cooperation and interregional and regional capital flows among developing countries

(i) Financial flows among developing countries

44. Financial flows are one of the weakest elements of ECDC. According to World Bank data, South-South public and publicly-guaranteed flows showed a sharp decrease from a high of US$ 9.1 billion in 1989 to only US$ 2.7 billion in 1993. (See table 3 of the annex for data and definitions.) Another characteristic of recent South-South flows is that repayments (amortization and interest payments) have exceeded new disbursements. The consequent net outflow of resources reached the level of almost US$ 2 billion in 1990 and diminished only slightly to US$ 1.7 billion in 1993.

45. Figures on the geographical composition of these flows reveal great differences among developing countries. Only a few Asian countries (e.g. China, Republic of Korea, Malaysia) are important sources of disbursements and are net creditors. 9/ Thus, the disbursements of Asian countries are increasing while those of Africa and Latin America are decreasing. By the same token, the net balance of Asia is improving, while that of the other two regions is deteriorating.

46. Official bilateral credits accounted for the bulk of public and publicly-guaranteed flows. However, they dwindled from US$ 2.8 billion in 1990 to US$ 1.6 billion in 1993. Non-bank private credits also showed a sharp decrease, from US$ 640 million in 1990 to US$ 139 million in 1993, while commercial bank and suppliers' credits proved to be more stable.

47. One of the major sources of multilateral official development assistance (ODA) among developing countries is the OPEC Fund for International Development, established in 1976. Most of the OPEC Fund's assistance, from its inception through 1994, has been directed to Africa (US$ 1,496.8 million) and Asia (US$ 1,213.3 million).

48. In contrast to publicly-guaranteed flows, non-guaranteed private flows among developing countries have been increasing. Table 5 in the annex shows the intraregional cumulative stock of FDI for nine selected Asian countries and territories for which data were available. For these nine countries, the stock grew from US$ 10 billion in 1980 to US$ 132 billion in 1993. Intraregional investment accounted for 45 per cent of the total by 1993, as compared to 30 per cent in 1980. China received around 70 per cent of the intra-FDI.

49. In Latin America, intraregional investment grew appreciably; Chile emerged as a major intraregional investor (US$ 1.7 billion between 1991 and 1994). 10/ In MERCOSUR, Uruguay's investment in Brazil increased from US$ 5 million in 1991 to US$ 14 million in 1992. In the Andean subregion, investment from Colombia to Venezuela doubled between 1990 and 1993 to US$ 50 million.

50. With regard to intraregional African investment, reliable data are lacking. However, a study prepared by the UNCTAD secretariat in 1989 identified 30 intraregional African enterprises. 11/

(ii) Institutional and regulatory developments regarding private flows 12/

51. In some developing regions, recent institutional developments have favoured intra-grouping cross-border private flows. In Latin America and the Caribbean, the Caribbean Stock Exchange (operational since 1991) has established cross-border trading in securities among member countries. The Association of Central American Stock Exchanges (BOLCEN) is planning to establish electronic interconnection and mutual use of their stock exchanges for the custody of deposits from each other. The Ibero-American Electronic Stock Exchange (BEIA) project 13/ aims at facilitating the trading in securities of major enterprises in the Ibero-American region and creating a market for raising funds. Other important regional institutions are the Union of Arab Stock Exchanges; the African Stock Exchanges Association (ASEA, established in April 1993, and includes South Africa) and the East Asian and Oceanian Stock Exchanges Federation (which includes Japan).

52. The need to intensify global collaboration among stock exchange markets has been discussed by the International Federation of Stock Exchanges (FIBV). In 1988 the institution issued Generally Accepted Principles with respect to Securities Trading and, in 1992, its Generally Accepted Principles of Securities Business, aiming at global standardization of the principles of securities trading.

(iii) Impediments to capital market cooperation

53. In the light of the recent setbacks registered in emerging markets, cooperation among these capital markets seems to be more timely than ever. Individual countries can shield themselves against external shocks in capital flows if their national economies are large enough to absorb sudden changes in flows, if their industrial sector is diversified and developed enough to respond to incentives and obviate balance-of-payments problems arising from exchange rate interaction with capital flows, and if their financial markets are of a size that can continue to attract and hold onto foreign direct

investment. Most developing countries, even the major ones, do not fulfil these conditions on their own. Hence, there is a manifest need for regional cooperation.

54. There are various impediments hindering such cooperation. First, intraregional financial flows are limited by foreign-exchange controls and other direct restrictions on transfers, as well as indirect measures designed to influence capital flows. Regional capital account convertibility of national currencies would certainly boost cooperation on the scale of a regional capital market. 14/ Regional capital account convertibility may be facilitated if clearing and settlement links among domestic private agents and central monetary authorities are established.

55. A second impediment of regional capital market cooperation is the lack of preferential treatment for intra-grouping investors. Most developing countries apply the same ownership limits on both regional and global investment. 15/ One of the few cases of regional preferences is that of Kuwait, where the general limit is 49 per cent but GCC nationals are exempted up to the level of 75 per cent. In the same region, the non-reciprocal preferential scheme of Bahrain confers national treatment on citizens of other Gulf States in ownership and trading in local companies. In MERCOSUR, individuals and/or legal entities domiciled in member States are permitted to invest freely on each other's stock exchanges. There might be a clash of interest between regional preferences and foreign (external) investment policies of members, and this should be the subject of harmonization in each cooperation group.

56. A third obstacle to regional capital market cooperation is the diversity of the supervision standards of capital markets. Regional cooperation in the shaping of adequate supervision could also aim at the enforcement of international standards, adapted to local circumstances. 16/ Such actions should also lead to the active and concerted participation of the supervisory agencies of developing countries in international forums dealing with these standards such as IOSCO and the Council of Stock Market Regulatory Authorities of the Americas (COSRA), where the systemic risk in international flows is analysed and regulations geared to reduce risk and/or protect regional investors are suggested.

57. Another obstacle concerns the diversity of treatment of intra-group foreign investment and business establishment rules. There is no easy way out of this, since a common regime of treatment might be difficult to negotiate. One lesson from the European Union is to uphold the laws of each country with respect to its banks and other financial institutions operating in any other member country on a reciprocal basis.

58. A fifth obstacle to regional capital market cooperation is diverse and complicated national taxation systems. Regional harmonization of tax regimes and lenient, preferential treatment for regional taxation are practically non-existent. Regional harmonization of taxation would include elimination of double taxation within the region and convergence among national tax systems. This would result in harmonized taxation of portfolio capital inflows and outflows.

59. Lastly, the thinness of markets, as manifest by the inadequate supply of traded securities, is a technical obstacle to cooperation. In this regard, Governments may directly allow cross-border trading of government securities and create common guidelines for the trading of private securities. Indirect government support for regional securities trading may consist of facilitating regional trade through devices such as the establishment of "country funds", 17/ and the regional harmonization of guidelines on, for example: (i) conditions of membership in the stock exchange; (ii) common data banks containing standardized information on listed companies; (iii) measures favouring private capital channelling to security markets; and (iv) provisions of a broad range of securities instruments (gilts, corporate bonds and equities).

60. **In view of the growing importance of cooperation in capital markets, the Committee might consider recommending agreed conclusions on capital market cooperation to countries embarking on such ECDC endeavours.**

(iv) Problem of basic institutional links (correspondent banking problems, role of central banks)

61. Trade and investment cooperation would be more effective if based on widespread correspondent commercial banking relations among interested countries. In developing countries, two types of arrangements may be established. The first involves direct settlement between local banks for which they have established mutual correspondent banking relationships. The second arrangement is a triangular-type banking transaction, involving local banks as well as correspondent banks in major financial centres.

62. Correspondent cross-border transactions among commercial banks may be effectively facilitated by tackling the main policy issues involved. A first policy issue involves harmonizing the regulation and supervision of such relations. Central banks can also actively support the establishment of regional associations of bankers. These associations do not only bring banks together and facilitate the exchange of information, but also make a contribution to establishing standardized practices among members and to strengthening correspondent banking among them. Such association exists, for example, in the ECOWAS region. The West African Bankers Association (WABA), founded in 1981, has played a catalytical role in developing banking networks, in narrowing the gap in banking practices between anglophone and francophone West Africa, and in facilitating links among banks in the West African subregion through correspondent banking arrangements and the sharing of information among members.

63. A second issue concerns foreign exchange controls. Central monetary authorities may need to register, control and, eventually, manage foreign exchange transactions. But too strict controls and surrender requirements may make correspondent banking too slow and costly. Thus it would seem to be useful to simplify the administration of controls and, in the case of direct South-South correspondent banking, reduce the surrender requirements and the currency prescription.

64. Because triangular-type correspondent banking may involve high fees and other costs and require an important level of transactions in hard currencies, central banks may wish to substitute for the services of major financial centres by providing their own bilateral or multilateral payments arrangements or networks. This would constitute a major contribution to facilitating basic banking correspondence at reduced cost.

65. Bilateral agreements tend to have many similar characteristics. These arrangements usually involve the maintenance of clearing accounts in the respective central banks and the use of convertible currencies to clear net debits. At the end of 1993, a large number (53 out of the total of 159) of IMF members maintained bilateral arrangements. 18/ The authors of bilateral payments arrangements may draw on such international customs as the draft model bilateral agreement on trade and economic cooperation prepared by UNCTAD 19/ and the prototype payments arrangement (modelo de convenio), which has been prepared by LAIA. 20/ These texts, flexible enough to accommodate individual conditions, might serve as useful tools for the conclusion of bilateral agreements. Document TD/B/CN.3/15, chapter IV has a set of suggestions on this issue.

66. **The Committee might wish to give its views and guidance on all these issues and instruct the secretariat as to future work on them.**

Chapter II

PROMOTING COOPERATION OF THE ENTERPRISE SECTORS OF DEVELOPING COUNTRIES

A. Recent changes in the policy environment of enterprise and investment cooperation

67. The environment of enterprise cooperation has been profoundly modified in the past few years as a combined result of changes in the modes of cooperation among developing countries, in their economic policies (particularly liberalization and privatization), in the capacity and role of enterprises of developing countries themselves and in the increased integration of markets. Integration agreements have therefore been strengthened and new multilateral and bilateral agreements have been signed. Such new agreements, which seek to secure closer integration by means of more rapid liberalization of both tariff and non-tariff barriers, include clauses intended to facilitate joint investment.

68. For a long time the developing countries practised ECDC in the context of import substitution policies implying an elaborate system of protection and national preferences which apply equally to intraregional enterprises. Several integration groupings had established legal regimes for joint enterprises which gave regional enterprises a range of advantages in the form of exemptions from protectionist national laws.

69. There has been a remarkable convergence of developing country policies. These policies see in regional cooperation a means by which developing country enterprises can attain international competitiveness. Hence, opening up markets, cooperating in various domains, encouraging business alliances and reducing the protectionist barriers to levels far below those prevalent a few years ago where the approaches that came to mark the policies of cooperation of most group members. In Latin America this has given rise to the term "open regionalism". 21/

70. These changes in policies were also accompanied by a rapid expansion in the investment capacity of enterprises and a marked increase in their dynamism. Since the late 1980s and at an accelerating pace in the 1990s, a number of developing country enterprises have manifested great diversification and considerable capacity in investing in various sectors far beyond the traditional or reserved domains. This generalized investment thrust is attested by all recent statistics, as seen in the previous chapter.

71. During the late 1980s and early 1990s, there have also been major liberalizing changes in the laws and regulations of foreign investment in developing countries. The liberalization of investment laws and regulations concerns in particular: ownership and control; approval procedures; operational procedures; repatriation of capital and transfer of profits; national incentives, and other measures. 22/ These general policies have also been accompanied by specific ECDC policy actions.

72. Most investment and joint venture regimes established in the framework of cooperation and integration groupings have been revised. New regimes and other measures have been adopted to facilitate intraregional investments. In Latin America, the regime of the Andean Pact on foreign investment (Decision 24) was liberalized. The legal regime for Andean Multinational Enterprises (AME) has been modified so as to permit the participation of investors in Andean multinational projects (shareholdings by two or more Andean countries representing over 60 per cent of the capital of the enterprises). MERCOSUR members agreed on the unification of polices on foreign investment and adopted a protocol on the establishment of joint ventures. The Central American Common Market now aims at the free movement of capital. The regime for CARICOM enterprises has entered into force, and member countries have adopted a harmonized scheme for offering incentives in manufacturing.

73. In Asia, the ASEAN members have effected some harmonization of investment policies in order to reduce regional competition. Under the ASEAN Industrial Joint-Ventures Agreement, preferential tariffs are applied on goods produced by intra-grouping joint ventures. ASEAN also has an agreement on the promotion and protection of intra-investment. In the Pacific Basin, APEC countries have adopted non-binding principles for their investment cooperation. 23/ In Africa, PTA countries have adopted the Charter of Multinational Enterprises constituting a legal framework for facilitating intra-subregional investment. ECOWAS has simplified the procedures for establishing joint ventures among members, and SADC countries are preparing a framework for the implementation of investment projects. In the Arab region, several joint Arab enterprises have been established under the auspices of CAEU, OAPEC, the Arab League and GCC.

B. PROMOTION OF MULTINATIONAL ENTERPRISES

(i) Export processing zones

74. There are currently more than 200 export processing zones in developing countries. The numbers of developing country enterprises in these zones are increasing; today developing-country investors represent 20 per cent of all foreign-owned enterprises. 24/ A significant number of these enterprises belong to investors from recently industrialized Asian countries. Such enterprises are attempting to transfer production to other developing countries where costs are lower. The fact that their countries have lost the benefits arising from customs preferences granted under the Generalized System of Preferences was one factor encouraging them to establish production in other developing countries. For a considerable proportion of such investors, generally small or medium-sized enterprises, setting up production in an export processing zone is the first step in the process of internationalizing their activities.

75. The growing number of enterprises in export processing zones in developing countries opens up various opportunities for cooperation. Such enterprises prefer to establish joint ventures with enterprises from the country in which the processing zone is situated or with investors from other developing countries. Of the enterprises set up by investors from other developing countries in the export processing zones of the Philippines,

Malaysia and Sri Lanka, 86 per cent were joint ventures with local investors. The sectors favoured by joint ventures are the clothing industry (particularly textiles and shoes) and the assembly of electronic and electrical equipment. There are service export sectors where it would be possible to promote the creation of joint ventures: the application of computer technology in such areas as airline reservations, reimbursement claims for medical expenses by foreign insurance companies, banking activities, tourism, etc. Some countries in the Caribbean, such as Grenada, St. Lucia and Jamaica, have already developed several enterprises of these kinds. 25/ There are also examples of cooperation between enterprises which do not involve the creation of joint ventures. One such is the vertical integration of production between an enterprise in a processing zone and an enterprise belonging to investors from another developing country within or outside the processing zone (assembly subcontracts).

76. Regional, subregional and national business associations in developing countries could work together effectively to promote joint enterprises. **To that end it would be desirable for permanent contacts to be set up between the export processing zones and the business associations so that the latter could distribute information among their members regarding the possibilities for setting up joint ventures in the zones. In that context it would be useful if the Committee gave some consideration to a contribution by UNCTAD, in the form of a technical assistance programme, to setting up joint ventures between developing countries in export processing zones. One might envisage the inclusion in such programmes of the organization of meetings between investors in developing countries and representatives of the export processing zones. UNCTAD should support the regional associations of export processing zones in identifying new projects.**

77. **The establishment of information networks for firms can also be helpful in stimulating the investment of exporting enterprises in free zones, for example in seeking investing partners in specific sectors or partners capable of offering a particular technology, or managerial and marketing experience, or established distribution networks. Another aspect of such information is the identification of new projects. In this context, regional associations of free zones of developing countries can play a fundamental role.**

(ii) Privatization of public enterprises

78. The privatization of public enterprises in developing regions provides an excellent opportunity for setting up joint ventures between investors in developing countries. Between 1988 and 1992 direct foreign investment for that purpose in Latin America exceeded US$ 8 billion. 26/ Over the same period direct foreign investment in the Far East and the Pacific was less than $400 million, and in Africa it was still lower.

79. In Latin America Chilean enterprises have been the most active in this field. In particular, they have taken part in the privatization processes in Argentina, Peru and other Latin American countries. Since the privatization of large enterprises generally requires considerable financial resources, these enterprises have had to enter into association with other enterprises in both developing and developed countries. Enterprises have often undertaken financial research and development to win resources from outside the region:

foreign investment in local stock markets, the development of mechanisms such as "foreign capital investment funds", (FCIFs), 27/ the distribution of "American Depository Receipts", convertible bonds, 28/ etc.

80. Some countries, such as Morocco, Egypt and Tunisia, have recently embarked on the privatization process. The experience of Latin American enterprises could be useful for them and for other countries which will soon embark on similar programmes.

81. **The Committee could look into appropriate ways for UNCTAD to facilitate contacts between investors in developing countries who intend to buy enterprises within the privatization programme and investors in countries already involved in that process, so they can share their experiences. This would mean that specific ways of jointly acquiring public enterprises in developing countries within the context of privatization programmes, enabling the creation of joint ventures, could be identified.**

(iii) Competitive advantages

82. During the period of import substitution some enterprises reached a satisfactory level of competitiveness, enabling them to invest in other developing countries to create joint ventures or establish subsidiaries. Beginning in the 1980s, following the implementation of policies of opening up to the world economy and the deregulation of economic activity, enterprises in those countries had to make considerable efforts to hold onto their markets. This encouraged enterprises to develop their competitive advantages in several economic sectors. Chile is one of the countries where enterprises made the most progress in that direction. They developed advantages in the field of telecommunication, the generation and distribution of electricity, the management of pension funds, printing presses and publishing houses, supermarkets and trade centres and several aspects of the manufactured product sector. Such enterprises were forced to become more international, and, taking advantage of new legal standards allowing investment abroad, established joint ventures or subsidiaries. Forty per cent of Chilean investment went to Argentina, leading to the creation of some 150 enterprises.

83. **In this context, the Committee might wish to consider asking the secretariat to prepare an inventory of enterprises of developing countries with the requisite experience which have an interest in collaborating with other developing country enterprises. This will not only make it possible to identify opportunities for joint enterprises, inter-enterprise technical assistance or other modalities of South-South enterprise cooperation, but will aid in policy reforms aimed at opening up regional cooperation. On the basis of such an inventory, enterprises, their associations and participants in intergovernmental cooperation can organize round tables in various locations to discuss such cooperation and forge its modalities.**

(iv) Services

84. Developing countries have long pursued a policy of cooperation in the service sector. In Africa numerous joint ventures have been set up in the areas of transport (both air and rail) and finance. 29/ New joint ventures between developing countries have recently been established in the service

sector, particularly in Latin America. These new enterprises were set up in sectors such as maritime and air transport, telecommunications, banking, retirement pension fund management, tourism, the audiovisual media, art, culture, etc.

85. **Since this is an economic sector whose development is progressing at full speed, it would be useful for studies to be prepared showing developing country enterprises and investors the new opportunities for establishing joint ventures or other forms of cooperation.**

(v) Technology

86. The rapid pace of technological change is changing today's marketplace at an unprecedented rhythm. The increasing complexity of technologies, the escalating costs of R & D, and the expanding requirements in terms of human resources and skills are straining the capacities and capabilities of all countries. The problems are particularly acute in developing countries, whose structures and potentialities in the field of technology are inherently weaker and more fragile than those of the advanced countries. In many developing countries the smallness of enterprises and of markets, combined with the shortening of product cycles and the emergence of newer technologies, entail longer periods of amortization for investments and for research undertakings, as well as enormous efforts in keeping up with demands on human resources and on skill profiles. **Several new avenues of coordination or partnership have thus to be explored in search of dynamic complementarities within an increasingly open and competitive paradigm.**

87. In the short run, technological cooperation serves mainly as a means of overcoming constraints such as smallness of size, lack of finance, deficiencies in skill profiles and inadequacies in R & D installations. In the longer run, it is important that no country be marginalized from the benefits of technological change or from the interactive process of economic growth generated by technological advancement. The experience of advanced market-economy countries shows that **Governments have an important role to play in connection with technological change, namely through the formulation of market-friendly policies and in evolving, establishing and financing suitable institutional mechanisms promoting or facilitating technological cooperation.**

88. **In many instances, multi-enterprise or multi-country endeavours might be the only viable mechanism for revitalizing economic growth through greater technological dynamism.** 30/ Multi-partner arrangements at national, subregional, regional and interregional levels might involve, inter alia: **(a)** the mutual use of facilities that exist in individual countries of a grouping or the region; **(b)** evolving mechanisms for R & D cooperation in priority areas such as food processing, agro-industries, housing and building materials, waste management, advanced materials, energy conservation, etc.; **(c)** enhancing basic research and skill formation; **(d)** introducing technology demonstration programmes in cooperation with R & D institutions and associations of industries; **(e)** creating an association, centre or technology groups for promoting regional cooperation in the application of R & D results; **(f)** setting up joint pilot plant facilities to enhance technologies; **(g)** organizing case-studies on R & D investments in various sectors or industries; **(h)** creating a database on consultants and consultancy

organizations of the region and providing this information to R & D organizations; **(i)** evolving measures to facilitate and foster local R & D capabilities and technologies; **(j)** assisting small and medium-sized enterprises in technological and financial aspects relating to technology transfer, particularly through venture capital funding corporations; **(k)** facilitating the creation of venture capital firms and associations; **(l)** increasing human resource development schemes and introducing a system of awards for excellence in technology upgradation and transfer; **(m)** preparing material for the training of research personnel on mechanisms and modes of contracting between research organizations and enterprises; **(n)** preparing material for the training of research personnel on methods of patenting domestically and abroad; **(o)** studying models of R & D community-enterprise cooperation. 31/

C. Promotion of other forms of cooperation among developing county enterprises

(i) Agreements on non-equity joint ventures

89. There are other forms of cooperation among enterprises which do not involve the creation of standing industrial mechanisms, such as agreements between enterprises for vertical cooperation (for example, subcontracting and assembly agreements) and horizontal cooperation (for example, exchanges of products of the same type but with different specifications). Such agreements may relate to research, production or trading.

90. Research agreements may relate to contracts whereby one enterprise asks another to undertake research in a specific field in return for an appropriate fee, contracts on joint research (joint work) and contracts on pooling results, under which each enterprise is obliged to inform the other of its research results.

91. Production agreements may relate to the issue of patents and trademarks, know-how, industrial subcontracting for a specific project or for continuing activities, joint manufacturing, the creation of consortia, agreements on industrial equipment ("turnkey" projects), etc. Trading agreements generally relate to mandates, commissions and concessions.

92. **In this context the Committee might consider it useful to request the secretariat to prepare reports on the various possibilities for inter-enterprise cooperation in the form of non-equity joint ventures and to submit them to developing country enterprise associations and investors' meetings.**

(ii) Developing country enterprise associations

93. Developing country enterprises have established a significant number of associations directed at developing reciprocal cooperation at subregional and regional levels. A recent UNCTAD study 32/ shows that Venezuelan enterprises participated in over a dozen associations in the various economic sectors of the Andean Group. The activities of these associations, with some exceptions, are not very extensive, given the limitations in both human and financial resources. They could, however, be made into very useful tools to

expand inter-enterprise cooperation if they received the necessary technical and economic support. **The Committee could thus envisage requesting the secretariat to carry out programmes of technical cooperation to support the activities of existing associations and, in some cases, to promote the establishment of new ones.**

D. Measures for encouraging foreign and joint investments

(i) Measures to facilitate foreign investments

94. Measures can be adopted to facilitate cross-border investment and investment among developing countries. The Committee might wish to consider such measures as: **(i) the harmonization of investment policies, including incentives, facilities and approval procedures, in order to rationalize investment incentives involving developing countries and to reduce regional and interregional competition for investment among these countries; (ii) the adoption of national legislation on outward investment to other developing countries; (iii) the conclusion of bilateral and multilateral promotion and protection treaties among developing countries or the adoption of bilateral investment provisions to be multilateralized later; and (iv) the establishment, in the UNCTAD secretariat, of a database on laws and regulations on foreign investment, legislation on outward investment, joint investment regimes, bilateral and regional investment agreements, fiscal regimes and company laws in developing countries.**

(ii) Measures to promote joint investments

95. Almost all developing countries experiencing balance-of-payments difficulties have had recourse to capital restrictions of various forms. Such restrictions have constituted a major obstacle to the promotion of joint enterprises and naturally of capital movements among developing countries. Recently, there has been a movement towards liberalizing capital and trade accounts unilaterally. The result has been an impressive growth in the number of joint enterprises, as well as other forms of FDIs (see chap. I).

96. Some developing countries have set up national machinery to promote and facilitate investment in other developing countries. For example, the growth of foreign investment by Koreans has been stimulated both by tax advantages provided by the Government and by funding provided by the Export and Import Bank of Korea and other sectoral bodies, by systems of investment and information insurance, etc. Other mechanisms, such as the Inter-American Investment Corporation and the Andean Development Corporation, have been established at the regional and subregional levels to promote the establishment of joint enterprises. Mechanisms of this type have, however, inevitably had to restrict their scope for action to the region or subregion concerned and are thus prevented from funding the creation of joint enterprises in developing countries located in other regions or subregions.

97. Developed countries have set up machinery to promote North-South joint enterprises which could serve as models for similar initiatives in developing countries. The European Union, for example, has mechanisms such as ECIP (European Community Investment Partners facility) to support private enterprises wishing to invest in developing countries and developing country

enterprises wishing to establish joint ventures with European investors. This mechanism funds such activities as the identification of projects and partners, pre-investment studies, negotiations, additional funding and the development of human resources. Between 1988 and 1992 ECIP funded 456 projects. 33/

98. There are other European programmes applying to specific regions. The European Union has set up a framework programme of industrial cooperation and investment promotion for Latin America called AL-INVEST, along with other more specific mechanisms, such as CEE-AL INTERPRISE (meetings within the EEC), AL-CEE-INTERPRISE (meetings in Latin America) and AL-SUBCONTRATACION (participation in the subcontracting markets and the exhibitions of the two regions). Other developed countries have, jointly with developing countries, established bilateral machinery for the promotion of joint investment, such as co-investment funds and bi-national investment funds (portfolio investments).

99. Not all developing countries, however, are in a position to liberalize capital movements completely towards all other countries. In such cases other measures to facilitate the creation of joint enterprises could be undertaken: a reworking of regulations with a view to favouring joint enterprises established within the framework of economic integration and cooperation groups; and the extension of benefits deriving from joint investment in other developing countries which are not members of the relevant integration group. Such measures could be implemented by means of bilateral agreements, regional investment agreements or an interregional agreement. 34/

100. **It would be useful in this context for the Committee to study the possibility of promoting an exchange of experiences between more advanced developing countries and other developing countries with regard to establishing rules of international and national law facilitating joint South-South investment. To promote such exchanges the Committee could request the UNCTAD Secretariat to prepare case-studies and to organize programmes of exchanges between experts and training seminars.**

101. **It would also be useful for the Committee to ask the secretariat to prepare, in close collaboration with Governments, banks, associations of enterprises and developed countries' organizations a report on the experiences of selected developed and developing countries with such mechanisms as a model of comparative experience in promoting joint enterprises.**

Notes

1/ This part is based on the report entitled "Clearing and payments arrangements among developing countries: recent developments, long-term policy considerations" (UNCTAD/ECDC/238).

2/ A. Cicin-Sain and J. Marshall, "Study on Limited Currency Convertibility among ECOWAS Countries", UNCTAD/ECDC/142, 1983.

3/ "Evaluation of performances and issues of trade financing in developing countries: the case for and the viability of an interregional facility" (TD/B/1300), 2 September 1991, and "Trade financing in developing countries: an assessment and evaluation of existing schemes and future requirements" (TD/B/1300/Supp.1), 2 August 1991.

4/ The term applies to both export credit programmes and insurance and guarantee schemes.

5/ Such credits are offered by developing countries' export credit programmes in the Republic of Korea, Taiwan Province of China and India.

6/ The financing schemes of the Republic Korea, Thailand, Taiwan Province of China, Egypt, India and Nigeria offer such facilities.

7/ For instance, the Indian Eximbank offers financing to Africa (through the Africa Project Development Facility), South and South-East Asia; disbursements of the Korean Eximbank are evenly spread out in developing areas including South America, Africa and Asia; and in the case of the Taiwan Province of China's Eximbank, credit disbursements have been approximately equally divided between the three regions, i.e. Asia, Latin America, Africa and Middle East.

8/ For details see TD/B/1300 and TD/B/1300/Supp.1.

9/ Based on data provided directly to UNCTAD by the World Bank.

10/ Source: ECLAC.

11/ See UNCTAD/ECDC/201, "Multinational Enterprises of Sub-Saharan Africa: Analytical Compendium".

12/ This part is based on the report entitled "The role of regional capital markets in enhancing resource mobilization and in promoting their efficient use" (UNCTAD/ECDC/246).

13/ BEIA project: created in 1990 by members of the Ibero-American Stock Exchanges Federation (FIABV), which includes all the major Latin American stock exchanges, as well as those of Portugal and Spain.

14/ In MERCOSUR, the existence of regional convertibility has facilitated the creation of regional securities trading. In the Caribbean Stock Exchange, the lack of convertibility is one of the most serious obstacles to intraregional securities trading. Cross-border trading, although legally possible, is at a low ebb due to unfavourable intraregional foreign exchange management.

15/ India (51 per cent), Indonesia (49 per cent), Thailand (25 to 50 per cent), Cyprus (5 to 49 per cent), Malaysia (up to 80 per cent), Mexico (up to 49 per cent), the Philippines (40 per cent in general).

16/ For example, the accounting recommendations of the International Accounting Standards Committee (IASC), the Business Conduct Principles and the recommended Capital Adequacy Standards for Securities Firms of the International Organization of Securities Commissions (IOSCO), the Basle Agreement on Capital Adequacy for Financial Institutions (signed under the auspices of the Bank for International Settlements) and the Directives of the European Community.

17/ "Country funds" are a good way to separate country risk from company risk because they can choose the most attractive and best-performing enterprises of the countries of the region and pool risk associated with individual companies. The good performers (high yield) in the fund's basket may average out the lacklustre or failing performance of others.

18/ See Issues in the International Exchange and Payments System, IMF, Washington, D.C., 1995 (forthcoming).

19/ "Bilateral agreements on trade and economic co-operation concluded by developing countries", UNCTAD/ST/ECDC/36 (vols. I and II), 1988.

20/ See "Modelo de Convenio Utilizable para la Eventual Celebración de Acuerdos de Pagos con Terceros Países" (ALADI/CAFM/XXIX/dt 2), 22 June 1994, Montevideo.

21/ See document TD/B/CN.3/15, where this term is explained and contrasted with "open and flexible ECDC".

22/ For the taxonomy of liberalizing foreign investment policies, see: World Investment Report 1994 (UNCTAD/DCTI/10), chap. VII, part I (Conceptual issues), pp. 287-293.

23/ See Edward M. Graham, "Towards an Asia-Pacific investment code", Transnational Corporation (UNCTAD/DTCI), vol. 3, No. 2 (August 1994, pp. 1-27).

24/ UNCTAD: Export processing zones: role of foreign direct investment and developmental impact (TD/P/WG.1/6), 28 April 1993, p. 11.

25/ CEPAL "América Latina y el Caribe: Políticas para mejorar la inserción en la economía mundial" (LC/G.1800(SES.25/3)), 2 March 1994.

26/ UNCTAD. World Investiment Report 1994 (UNCTAD/DTCI/10).

27/ These funds are regulated by the legislation of the country where they are set up. For example, in 1994 Chile had 18 FICFs, which invested over $500 million in businesses, mostly in shares.

28/ Convertible bonds allow foreign investors to convert the bonds they hold into shares in the enterprise concerned after a given period.

29/ See UNCTAD, "Multinational enterprises of Sub-Saharan Africa" (UNCTAD/ECDC/201), 12 December 1989.

30/ The "Summary Suggestions, Recommendations and Proposals of the Regional Workshop on R & D Community and Enterprise Cooperation in Technological Research and Commercialization/Application of Results" (held in New Delhi from 7 to 10 November 1994) are reproduced in document UNCTAD/ECDC/Misc.133.

31/ Ibid., pp. 7 to 10.

32/ UNCTAD, "National implementation of decisions and programmes on economic cooperation and integration between developing countries. Case-study: Venezuela" (UNCTAD/ECDC/248), 24 November 1994, p. 6.

33/ CEPAL, "El Fomento de Inversiones Europeas Directas en América Latina y el Caribe: un Campo de Cooperación" (LC/L.782), 11 November 1993, p. 33.

34/ See para. 73.

ANNEX

Table 1

Overview of multilateral payments and clearing arrangements among developing countries

Name and membership	Operations started	Settlement period	Unit of account	State of transactions	Additional mechanism
ACU (Bangladesh, India, Islamic Republic of Iran, Myanmar, Nepal, Pakistan, Sri Lanka)	1975	2 months	AMU=SDR	Most regional transactions channelled and cleared, no arrears since 1975	Swap Arrangement since 1989
CACH-CPS (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua)	1990, predecessor (CACH) operated from 1961 to 1989	1 month	Central American peso=US$	Suspended activities in July 1992	
CHCAS (Burundi, Cameroon, Central African Rep., Chad, Congo, Equatorial Guinea, Gabon, Rwanda, Sao Tome-Principe, Zaire)	1989, replacing CAfCH, operational from 1982 to 1988	1 month	CAUA=SDR	1 per cent of regional trade channelled, arrears problem	
CMCF (Antigua-Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent-Grenadines, Trinidad-Tobago)	1977	6 months	US$	Due to arrears problem, suspended operations in 1983	CARICOM traveller cheques, operational from 1980 to 1993
LAIA Reciprocal Payments and Credits Agreement (Argentina, Bolivia, Brazil, Colombia, Chile, Dominican Rep., Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela)	1966	4 months	US$	Most regional transactions channelled and cleared, intra-debt has dropped since 1991	Automatic payments programme since 1991
PTA Clearing House (Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, United Republic of Tanzania, Uganda, Zambia, Zimbabwe)	1984	2 months	UAPTA=SDR	Half of regional trade channelled, no arrears since 1984	UAPTA travellers cheques since 1988
WACH (Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo)	1975	1 month	WAUA=SDR	1 per cent of regional trade channelled, arrears problem	

Source: UNCTAD secretariat, based on communications received from the organizations concerned.

Table 2

Regional trade-financing schemes of developing country institutions

Name of institution	Objectives and main features of the scheme	Financing instruments	Amounts of lending
Islamic Development Bank (IsDB)	Promotes trade among Islamic countries	- Import-financing scheme (post-shipment short-term financing) - Long-term trade financing programme (post-shipment, medium- and long-term financing) - Portfolio credits (post-shipment, short- and medium-term financing)	Export credit loans plus indirect and co-financing: US$ 250 million (1993)
Arab Trade Financing Programme (ATFP)	Promotes intra-Arab trade through rediscounting of trade financing instruments from member countries	- Pre- and post-shipment finance - Loans and lines of credit (refinancing) - Guarantees accepted: IAIGC, Central Banks, national export guarantee agencies	94 applications for lines of credit approved in 1991-93 totalling US$ 263 million
Inter-Arab Investment Guarantee Corporation (IAIGC)	Provides guarantees against non-commercial risks for Arab investors, including exports credits	Commercial and non-commercial risks: covers short-term export transactions of a given exporter to all Arab countries	Value of export credit guarantee contracts signed in 1993: US$ 47 million
Andean Development Corporation (CAF)	Offers trade financing through SAFICO and MECOFIN	Pre- and post-shipment Short-term credit, project loans, trade financing	Stock of indirect financing to banks: US$ 412 million (1994); disbursements of short-term operations: US$ 1,207 million (1993)
Banco Centroamericano de Integración Económica (BCIE)	(i) Support to Central American commercial banks in trade-financing operations (through PAPECA); (ii) Support to productive sectors; (iii) Special programme of support (also from the EU) for exports to Honduras and Nicaragua; (iv) Co-financing operations	Pre- and post-shipment, lines of credit	Disbursements in 1993: under (i) US$ 9.6 million (1993); under (ii) US$ 23.9 million; under (iii) US$ 10.8 million; under (iv) US$ 3.4 million
Inter-American Development Bank (IDB)	Contributes to increasing the share of Latin American countries in world trade and encouraging both interregional and intraregional trade, through: (a) Export financing scheme; (b) Venezuelan Trust Fund	Loans/lines of credit, discounting	In 1993, volume of refinancing: US$ 30 million (85 per cent of amount of bank credits to exporters)
Banco Latinoamericano de Exportaciones (BLADEX)	Provides resources for the financing of foreign-trade transactions in the Latin American region	Short-term financing	1979-1993, BLADEX provided over US$ 36.7 billion in trade financing
Latin American Reserve Fund (LARF)	Supports trade finance operations originating in member and non-member countries	Pre- and post-shipment Credit lines	January-June 1994: trade financing through Bankers' Acceptances US$ 73.5 million; credits to commercial banks US$ 1,034.6 million; advances: $19.6 million
Eastern and Southern African Trade and Development Bank (PTA Bank)	Provides resources to export-oriented transactions	-	-
PTA Reinsurance Company (ZEP-RE)	Promotes development of insurance and reinsurance in the PTA subregion	-	-
African Export- Import Bank (AFREXIMBANK)	Offers insurance to cover risks in African markets and export credits to third parties	Pre- and post-shipment	-

Sources: Questionnaires distributed by ECDC Division to regional institutions; TD/B/1300/Supp.1, August 1991.

Table 3

Inter-developing-country flows, public and publicly guaranteed, by type of credit*, 1990 and 1993

(US$ million)

	1990	1993	1990	1993	1990	1993	1990	1993	1990	1993
Creditor type	Disbursements		Amortization		Interest payments		Repayments a/		Balance	
Official bilateral	2 797	1 553	2 705	1 978	810	601	3 515	2 579	-718	-1 026
Banks	583	596	1 365	741	521	183	1 886	924	-1 303	-328
Other private credits	640	139	267	217	115	39	382	256	258	-117
Suppliers' credits	592	431	589	510	159	120	748	630	-156	-199
Total	4 612	2 719	4 926	3 446	1 605	943	6 531	4 389	-1 919	-1 670
Memo item:										
Bonds b/	n.a.	n.a.	47	0	4	0	51	0	n.a.	n.a.

Source: World Bank: International Economics Department, Debt and Finance Unit.

* In World Bank categorization, the group of developing countries includes also Greece, Portugal, Turkey, and Central and Eastern Europe.

a/ Repayments = amortization + interest payments.

b/ Data on bonds only available for repayments.

Table 4

The OPEC Fund for International Development: Cumulative activities as at the end of December 1994

Target region of lending operations	Project		Balance-of-payments support		Programme		Total	
	US$ millions	Per cent of total	US$ millions	Per cent of total	US$ millions	Per cent of total	US$ millions	Per cent of total
Africa	937.9	44.3	430.5	59.4	128.4	53.6	1 496.8	48.6
Asia	973.0	45.9	175.8	24.3	64.5	27.0	1 213.3	39.4
Latin America	197.4	9.3	118.0	16.3	46.0	19.3	361.5	11.7
Southern Europe	11.0	0.5	0.0	0.0	0.0	0.0	11.0	0.3
Total	2 119.3	100.0	724.3	100.0	238.9	100.0	3 082.6	100.0

Source: OPEC Fund for International Development.

Table 5

Selected countries/territories in East and South-East Asia: Intraregional FDI cumulative (stock), 1993, US$ millions

	Home countries and territories							
	Four NICs a/		Selected ASEAN b/		China		Total	
Recipient countries/ territories	Value	Share in sel. Asia (%)	Value	Share in sel. Asia (%)	Value	Share in sel. Asia (%)	Value	Share in sel. Asia (%)
Hong Kong c/	88	0.1	11	0.3	537	63.0	635	0.5
Taiwan Prov. of China	2 756	2.2	805	21.2	n.a.	n.a.	3 561	2.7
Rep. of Korea	414	0.3	1	0.03	11	1.3	426	0.3
Total selected NICs	3 258	2.6	817	21.5	548	64.3	4 622	3.5
Indonesia	17 231	13.5	280	7.4	70	8.21	17 581	13.3
Malaysia	9 692	7.6	1 392	36.6	212	24.9	11 296	8.6
Philippines	604	0.5	21	0.6	-	-	624	0.5
Thailand	3 882	3.0	70	2.1	22	2.6	3 974	3.0
Total selected ASEAN	31 408	24.6	1 762	46.3	304	35.7	33 475	25.4
China	92 662	72.7	1 225	32.2	n.a. d/	n.a.	93 887	71.1
Total selected Asia (NICs + ASEAN + China)	127 328	100.0	3 804	100.0	852	100.0	131 985	100.0

Source: UNCTAD: Country and regional experiences in attracting foreign direct investment for development TD/B/ITNC/3.23 February 1995; also UNCTAD Division on Transnational Corporations and Investment Directory, based on UNCTC Vol. I, Asia and the Pacific (ST/CTC/66) and official sources.

a/ Includes from among the NICs: Hong Kong, Republic of Korea, Singapore (excluded in the table as host country because the geographical breakdown of inward FDI is not available) and Taiwan Province of China.

b/ Includes only four economies of ASEAN: Indonesia, Malaysia, Philippines and Thailand.

c/ Data for Hong Kong are end-1992 and include only manufacturing.

d/ Data for 1993 are as at end June 1993.